

Portfolio Analysis

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KfW Social Protection Portfolio Analysis 2020

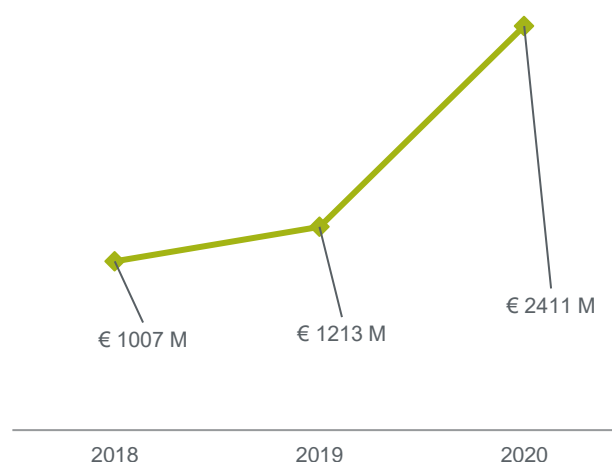
Efficient and effective social protection systems are a fundamental prerequisite for the long-term reduction of poverty and inequality as well as a cornerstone for peaceful coexistence in a society (“social contract”). Social protection systems are becoming all the more necessary as increasing fragility, migration and particularly the negative effects of the coronavirus pandemic threaten the successful results already achieved in poverty alleviation¹. In spite of growing risks and rising poverty, more than half of the world’s population live without social protection: When faced with bad harvests, floods, old age, illness, accidents, the death of the main breadwinner, or the loss of a job due to COVID-19, people are at risk of falling (back) into poverty. This is why building and reinforcing social protection systems are two objectives in the global 2030 agenda for sustainable development (SDG 1.3) and a prerequisite for peace and social cohesion (SDG 16).

KfW Development Bank supports the development and expansion of social protection systems on behalf of and using funds from the Federal Ministry for Economic Cooperation and Development (BMZ) and other donors in its partner countries. It works together with its partners to develop country-specific solutions and innovative concepts. Financial Cooperation (FC) focuses mainly on the following fields of assistance: “basic social security”, “protection in the event of illness” and “protection against climate risks”.

In 2020, 328 million people benefited from current FC projects in the field of social security

At the end of 2020, the overall FC portfolio for “social protection” contained 175 ongoing programmes in over 36 countries. The aggregated financial volume² of these programmes amounted to EUR 2.4 billion³, which corresponds to a rise of almost 100% compared to the previous year due to non-recurring effects caused by the coronavirus (see chart 1). As such, 328 million people were directly or indirectly protected from poverty in 2020 (see below for definitions).

Chart 1: Development of the overall FC portfolio for ongoing social protection projects 2018–2020



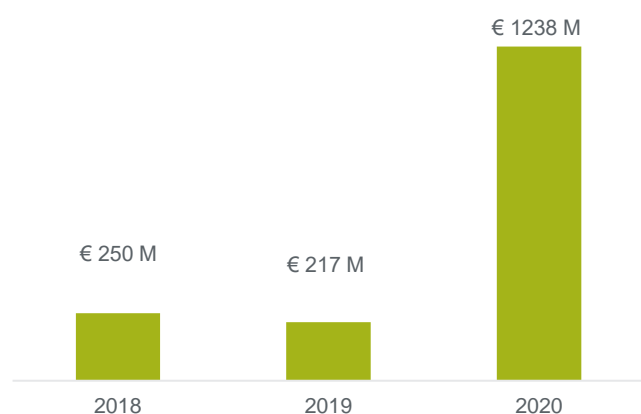
The overall ongoing portfolio undergoes change based on the balance of new annual FC commitments and the projects concluded by KfW in the respective year. Referred to as “completed” programmes, these projects generally continue to impact on social protection but are run by partner countries without any further support from KfW and therefore no longer appear in the overall ongoing portfolio. Due to commitment cycles and certain particularly large projects, annual new commitments can sometimes fluctuate to a greater extent. However, the unusually sharp rise in 2020 (46 new projects in 24 countries with a financial volume of EUR 1.2 billion) is mainly due to the Coronavirus Emergency Aid Programme launched by the Federal Ministry for Economic Cooperation and Development (BMZ) (see chart 2 and separate analysis below).

¹ Updated estimates of the impact of COVID-19 on global poverty: Turning the corner on the pandemic in 2021?, World Bank, 2021, Link: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty-turning-corner-pandemic-2021>

² If funding for social protection is only a sub-component of a project, it is not included in the analysis. However, these programmes were factored in manually on a pro rata basis in the 2019 portfolio analysis. Accompanying basic and advanced training measures are assigned to each main project. The projects are in different stages of implementation, ranging from the KfW contract with the recipient/implementing organisation through to final appraisal by the KfW evaluation department.

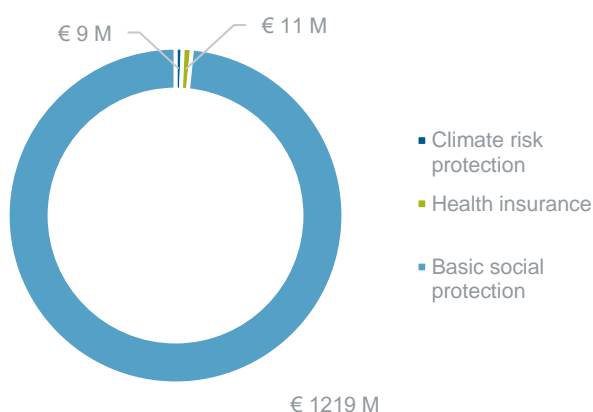
³ All values have been rounded.

Chart 2: New commitments 2018–2020



Almost all emergency coronavirus aid can be attributed to the “basic security” field of assistance, which therefore more or less dominates the 2020 commitment statistics with 43 new projects and a promotional business volume of EUR 1.2 billion (98% of new commitments) (see chart 3). Furthermore, there was just one new commitment in the “protection in the event of illness” field of assistance in 2020 (EUR 11 million for a healthcare voucher programme for pregnant women and mothers in Yemen) and two new projects (EUR 9 million) in the “protection against climate risks” field in Sub-Saharan Africa.

Chart 3: New commitments by purpose 2020



Direct and indirect development approaches to social protection

KfW generally uses a very broad range of development approaches in the area of social protection (see table 1). A distinction is made between direct and indirect approaches. In the case of direct approaches, people or households are directly protected by health insurance or admission to a cash transfer programme, for example. In indirect approaches on the other hand, the government purchases (index-based) insurance to provide emergency aid for the affected population, for example, if there is a crisis (whereby in the event of a crisis, the funds can be distributed to the population affected through social protection mechanisms).

Table 1: New commitments in 2020 by development approach

Development approach	Amount	Percentage
Cash transfer (direct)	€ 1,056 M	85%
Cash for Work (direct)	€ 158 M	13%
Voucher (direct)	€ 11 M	1%
Indirect insurance approach	€ 9 M	1%
Political reform project (indirect) ⁴	€ 4 M	< 1%
Total	€ 1,238 M	100%

When breaking down the new commitments in 2020 in the field of social protection by development approach, a total of EUR 1.1 billion (85%) of the commitment volume is attributed to 24 new cash transfer projects with 2.2 million beneficiaries; the majority of these projects were under the Coronavirus Emergency Aid Programme. Furthermore, 16 Cash-for-Work projects are financed that provide short-term employment for 474,000 people – primarily refugees in Sub-Saharan Africa and the Middle East. Vouchers are the third largest field of assistance and are used to support 140,000 Yemeni women and their children in the area of reproductive health. The fourth-largest instrument is insurance approaches (two projects to support the regional African Risk Capacity insurance company). Finally, two nationwide reform projects are supported: one of them in India with a volume of EUR 468 million for cash transfers and social protection reforms (reported under cash transfers), and one in Rwanda with a volume of EUR 4 million for the reinforcement of decentralised social protection structures.

Social cash transfers on the rise

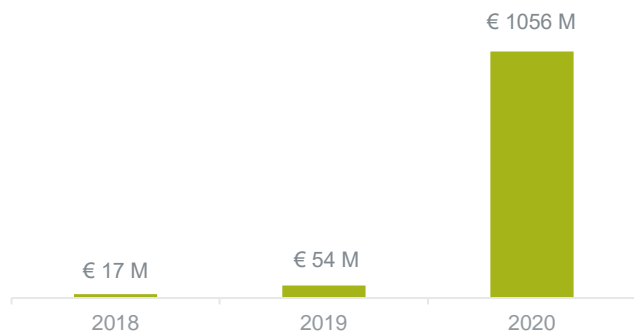
As the above development approach statistics show, KfW is increasingly employing cash transfers for its social protection projects. It is thereby contributing to the achievement of the “Grand Bargain” reform agenda set out in 2016, in which Germany and other countries and organisations made a commitment to increase their use of cash transfers.

In 2020, the new commitment volume for cash transfers rose to approx. EUR 1.06 billion. This money is used to help over 2 million people to cover their most urgent needs, such as food, healthcare, accommodation and education⁵.

Chart 4: New commitments for cash transfers 2018–2020

⁴ A political reform project in India with a volume of EUR 468 million is reported under cash transfers due to its large cash component.

⁵ Cash transfers: what does the evidence say? - A rigorous review of programme impact and of the role of design and implementation features, Bastagli et al., ODI, 2016

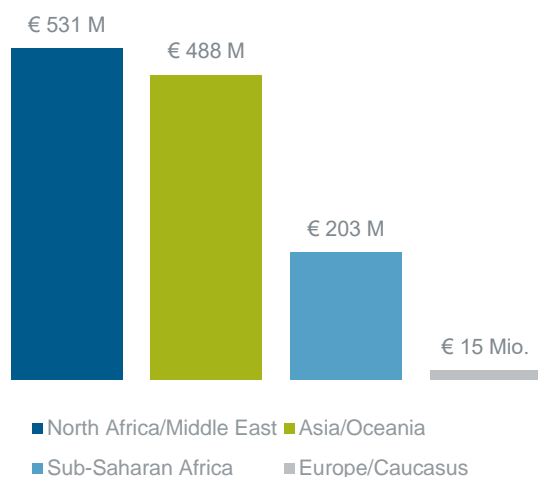


Studies show that cash transfers can noticeably improve beneficiaries' food situation, increase children's attendance at school and even reduce intra-familial tensions and gender-based violence. And cash transfers exhibit a high level of cost efficiency, while simultaneously strengthening local markets and creating jobs. Every euro of cash transfer generates local added value of up to EUR 2.45⁶. Contrary to widespread prejudices, however, cash transfers generally do not lead to increased consumption of alcohol and tobacco⁷.

Regional focus areas: Middle East, Asia and Africa

In 2020, the majority of newly committed funds (EUR 531 million) went to the Middle East and North Africa, followed by Asia, Oceania and Sub-Saharan Africa (see chart 5). This regional breakdown is also linked to the fact that higher-volume, interest-subsidised promotional loans (KfW promotional and development loans) were used for the first time in Asia and North Africa/the Middle East under the Coronavirus Emergency Aid Programme (see below), an instrument that was almost impossible to use in Sub-Saharan Africa because most of the countries there have a lower economic performance.

Chart 5: New commitments in 2020 by region



Fragile countries are defined as countries with significant deficits in the areas of security, government performance and political legitimacy. According to the OECD, around 1.8 billion people are currently living in fragile countries – a figure that is estimated to rise to 2.2 billion by 2020. Around 77% of people in the world affected by poverty already live in fragile countries today and this percentage is likely to rise even further. In light

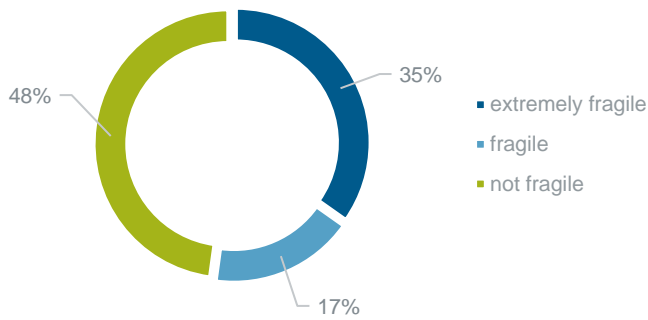
of this, there is a great need for social protection in these countries.

This is also reflected in KfW's portfolio: In 2020, 52% of all new projects were implemented with the aim of strengthening social protection in fragile and extremely fragile countries (according to the OECD definition) (see chart 6).

⁶ Cash transfers, food security and resilience in fragile contexts - General evidence and the German experience, DIE, Luis A. Camacho Merle Kreibaum, 2017

⁷ Cash Transfers and Temptation Goods - A Review of Global Evidence, Policy Research Working Paper 6886, David K. Evans Anna Popova, The World Bank, 2014

Chart 6: New projects in extremely fragile countries (2020)

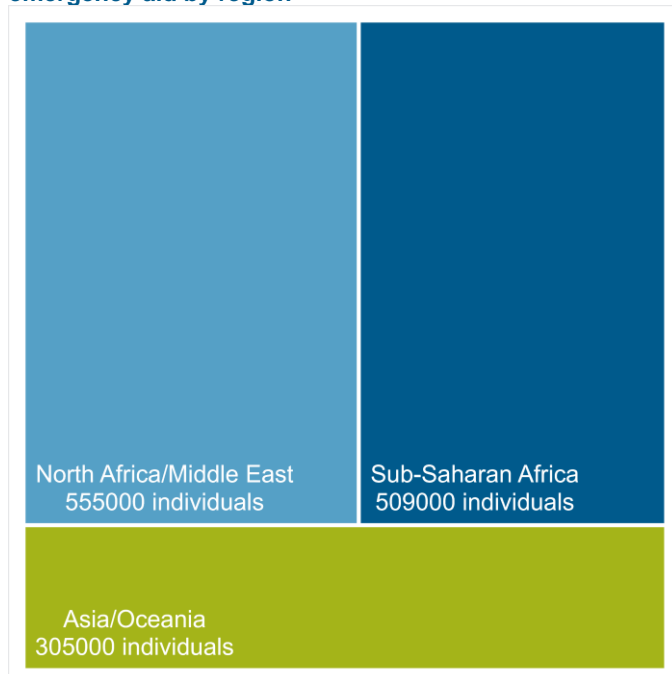


Coronavirus emergency aid: Social protection improved for around 1.5 million people living in vulnerable situations

Most cash projects can be attributed to coronavirus emergency aid. The total volume of emergency aid in the area of social protection amounts to EUR 972 million. The main recipients here are India with EUR 468 million and Morocco with EUR 314 million.

By means of social protection projects, the coronavirus emergency aid financed by KfW on behalf of the Federal Ministry for Economic Cooperation and Development helped to support approx. 1.37 Mio. people living in vulnerable situations, who have suffered a significant drop in income (even threatening their livelihood) due to the coronavirus pandemic. An even greater rise in extreme poverty was prevented as a result. Over 40% of the beneficiaries live in North Africa and the Middle East (see chart 7).

Chart 7: Number of beneficiaries from coronavirus emergency aid by region⁸



Sources of financing: KfW market funds deployed on a wider scale for the first time for concessionary promotional loans

In poorer countries, social protection measures are financed almost exclusively using grants from the German federal budget. As part of coronavirus emergency aid measures, however, middle-income countries have been supported on a wider scale for the first time using concessionary financing (development and promotional loans). A total of 39% of the funds used for new projects in 2020 came from German federal budget funds, and the remaining 61% came from funds borrowed by KfW on the capital market.

Table 2: Sources of funds for KfW new projects in 2020

Source	Amount	Percentage
KfW funds	€ 760 M	61%
BMZ regional titles	€ 140 M	11%
BMZ transitional aid	€ 128 M	10%
SI ⁹ Causes of Emigration	€ 125 M	10%
SI One World - No Hunger	€ 30 M	2%
BMZ low-interest loans	€ 22 M	2%
Standard BMZ loan title	€ 15 M	1%
SI North Africa and Middle East	€ 10 M	1%
Int. climate and environmental action	€ 8 M	1%
Total	€1238 M	100%¹⁰

Outlook: social protection continues to grow in importance

The social protection portfolio has grown significantly as a result of the pandemic. Here, the focus was on direct stabilisation using emergency aid. And yet, the pandemic has still not been brought under control – due to delivery and financing shortages for vaccines and limited capacity for the execution of vaccination programmes, the negative effects will rise even further in many developing countries. As such, there is still a huge need for support. In addition to emergency aid, the focus here should be primarily on continuing and intensifying the establishment and strengthening of social protection systems in the sense of a sustainable recover forward approach (medium- and long-term strengthening of resilience).

⁸ If funding for social protection is only a sub-component of a project, it is not included in the financial analysis. However, beneficiary numbers may still be reported.

⁹ BMZ special initiative

¹⁰ Due to rounding, the overall sum does not amount to 100%.

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